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The Reverse Mortgage

UNIVERSITY OF ILLINOIS-URBANA



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...what you need to know

Illinois Department
on Aging



A Reverse Mortgage is the opposite of a conventional mortgage. Instead of the homeowner sending a monthly payment to a lender, the lender pays the homeowner.

If you are age 62 or older, own your home, have little or no mortgage and could be considered "house rich and cash poor," a reverse mortgage may be an option to consider. A reverse mortgage isn't the answer for everyone; however, it may be just the thing for older homeowners who need cash and wish to stay in their own homes.

Many people have long wanted to turn the investment in their homes into extra income. But in the past, homeowners were limited to selling their property or applying for a home equity loan in order to access income from home ownership. Then an amendment to the Illinois Banking Act made reverse mortgages available to older homeowners in Illinois.

Reverse mortgage (or home equity conversion) loans that are subject to U.S. Department of Housing and Urban Development (HUD) guidelines may be insured by the Federal Housing Administration (FHA), allowing senior homeowners to acquire a secure loan against the equity in their homes. The periodically adjusted FHA mortgage limit for a given area, which currently ranges from \$67,000 to \$417,000, is the maximum amount that can now be borrowed for a reverse mortgage. The loan is paid out as income and you can select from five payment plans. (If you change your mind, you can modify your payment plan for a fee.)

- **Tenure** — equal monthly payments, as long as one borrower occupies the property as a principle resident;
- **Modified Tenure** — combination of line of credit plus scheduled monthly payments for as long as you remain in your home; or
- **Term** — equal monthly payments;
- **Modified Term** — combination of line of credit plus monthly payments for a fixed period of months.
- **Line of Credit** — unscheduled payments or installments, at times and in an amount of your choosing;

Who is eligible?

- All homeowners who are age 62 or older;
- Those who occupy their home as their principle residence; and
- Those who have little or no mortgage.

How much money can I get?

The amount is based on:

- The value of the home;
- The age of the homeowner;
- The cost of the loan; and
- The payment option selected.

How can I use the money?

Income generated from a reverse mortgage may be used for property tax and insurance payments, home maintenance costs, improved transportation, health care, travel, dining out, basic necessities, or any purpose you choose.

When must the loan be repaid?

The loan is due and payable when the borrower sells the property, permanently

leaves the home or passes away. In the case of a couple, it is the second to move out or die that triggers repayment. Until these events take place, you live in the home and make no payments to the lender.

Generally, borrowers or their heirs repay the loan by selling the home. If the home is sold, you or your heirs may keep the proceeds in excess of the amount due to the lender.

Can the lender take my house?

The lender does not take title to your home, even upon your death. But, your heirs must pay off the loan before they can assume ownership. If your heirs choose not to repay the loan, the lender then takes ownership as payment for the reverse mortgage loan.

How safe is this type of loan?

The loan is very safe and secure — particularly if you get a HUD-sponsored reverse mortgage. It is protected and insured through the FHA, who guarantees your payments will be received as scheduled. Even if a reverse mortgage is not HUD-sponsored, lenders must disclose any interest or other fees, and if the lender promises to make periodic payments to the borrower, the lender cannot reduce either the number or the amount based on a change in the interest rate. No repayment needs to be made for as long as you live in your home. No monthly payments are required from you. **Remember, lenders who are not FHA-insured may also offer reverse mortgage loans.**

What are my obligations?

In keeping your end of the loan agreement, you must:

- Stay current with all taxes and insurance payments;
- Maintain your property and have replacement value insurance;
- Continue to occupy the home as your primary residence;
- Not violate any city or governmental building code; and
- Meet minimum property standards for your community.

How do I apply for a reverse mortgage loan?

Borrowers should take advantage of information on reverse mortgages available from independent third parties before making a reverse mortgage commitment.

The Department of Housing and Urban Development requires that you attend a free informational session with a housing counselor at an agency that has been pre-approved by HUD before you can apply for an FHA-insured reverse mortgage. **Even if your lender is not HUD-approved, you may still want to take advantage of the counseling.** Be aware that some lenders charge a non-refundable application fee, so take advantage of the free HUD-approved counseling **prior to application** in order to better understand the process, as well as other options available to you.

Home Equity Conversion Mortgage (HECM) counselors will discuss program eligibility, financial costs and alternatives to obtaining a HECM. They will also discuss

provisions for the mortgage becoming due and payable. Upon the completion of HECM counseling, you should be able to make an independent, informed decision of whether this program will meet your needs.

Cautious and practical homeowners should consult trusted friends, relatives or legal advisors before entering into a reverse mortgage commitment.

Where can I find a counseling agency?

Call the Illinois Department on Aging **Senior HelpLine: 1-800-252-8966**, 1-888-206-1327 (TTY). Trained information and referral specialists can put you in touch with the nearest available counselor.

Also visit:

- AARP brochure, *Reverse Mortgage Loans – Borrowing Against Your Home*:
www.aarp.org/money/personal/reverse_mortgages/
- National Reverse Mortgage Lenders Association: www.reverse.org

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Download this brochure at **www.state.il.us/aging**
under "News and Publications"

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